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Economic Intelligence Weekly

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Note: Comments and queries on the contents of this publication are welcomed. They may be directed to [redacted]

ECONOMIC INTELLIGENCE WEEKLY

Notes

China Buys US Grain for Delivery in 1974

China has purchased 500,000 tons of US corn within the past week, mostly for delivery in the first quarter of 1974. [redacted] 25X1 Earlier this month, China implied that new deals would hinge on favorable credit terms but apparently settled for cash or limited private financing after learning that official credits probably could not be arranged. This is in addition to the 2.5 million tons of US grain already purchased for delivery in 1973. [redacted] 25X1

Japan's Trade Surplus with the United States Continues Downward Trend

Japan's trade surplus with the United States in April of $155 million was less than half the April 1972 surplus and for January-April ran about $340 million lower than the same period last year. Japanese exports declined slightly from last April's total, while imports, led by foodstuffs, increased by 43%. Although Japan's exports to the US market should pick up in the coming months, imports will continue to grow at a much higher rate. [redacted] 25X1

United States May Import Polish Coal

Two US firms have been authorized by Poland to act as intermediaries in the sale of Polish low-sulfur coal to electric utility companies on the US East Coast. Poland, which ranks second after the United States as an exporter of coal, has offered to supply up to 2 million tons (worth roughly $30 million) in 1974 and 5 million tons per year at some time in the future. The delivered price would be equal to or below that of Appalachian steam coal, which generally has a high sulfur content, and below the price of low-sulfur coal from the western United States. [redacted] 25X1

[redacted] 25X1

[redacted] 25X1

US Trade Deficit with Canada Declines

According to Canadian data, the US trade deficit in the first quarter of 1973 was cut to about $240 million, down about 30% from the first quarter of 1972. Sparked by a sharp rise in domestic economic activity, US purchases from Canada expanded by 22%, but this gain was more than offset by a 28% sales increase arising from Canada's boom. US automotive product exports accelerated, possibly yielding a small surplus in this trade. The short-term trend in the US bilateral trade deficit will continue to depend largely on the countries' relative economic growth rates. Because the present gap between the two rates is likely to narrow, chances seem good that the 1973 US deficit will drop significantly below last year's $1.1 billion. (UNCLASSIFIED)

Proposed Sale of US Diesel Engine Plant to Czechoslovakia

Tower International, a firm with experience in the East European market, has offered Czechoslovakia a $45 million diesel engine plant, proposing to arrange plant financing and to purchase about $20 million of the annual plant output of engines. The annual purchase agreement would approximate total US imports of Czech goods in 1972. (UNCLASSIFIED)

United States to Buy More Australian Beef

US imports of beef from Australia will increase by an estimated 12% this year, to roughly 345,000 tons. Because of the recent Australian dollar revaluation and generally rising beef prices, the value of imports will rise considerably faster than the volume. During the next several years the amount of Australian beef available to the United States, where it is used primarily by fast food chains, may decline because of rapidly growing Japanese demand. [redacted] 25X1

Exchange Rate Changes Relative to the Dollar Since the Joint Float Initiated on 19 March

Percent

	7 May	15 May	21 May	23 May
Mark	-0.9	+2.0	+3.1	+2.8
Guilder	-2.1	+1.0	+2.0	+1.9
French franc	-0.4	+2.6	+3.4	+2.9
Sterling[1]	+1.3	+4.3	+4.5	+3.9
Swiss franc[1]	0	+3.4	+4.9	+5.0
Yen[1]	-0.3	+0.5	+0.2	+0.3

1. Independently floating currency.

(UNCLASSIFIED)

Articles

Monetary Pressures Continue

The dollar remained under pressure in European currency and gold markets in the last week.

- Since 7 May (when the dollar was at its highest levels in recent months), the dollar has depreciated by about 3.5% against the European joint float currencies.

- The free market gold price peaked Monday at $112 an ounce, up $22 since 7 May, but it has since fallen off slightly.

The absence of intervention by the European central banks apparently has reduced the volume of trading on the currency exchanges but at the same time has resulted in more volatile movements of exchange rates.

The European joint float has easily weathered the storm on the currency markets. With all currencies strong relative to the dollar, only modest interventions have been required to maintain the band. If the dollar continues to depreciate, however, internal pressures on the European joint float probably will increase.

Strong differential pressures among the currencies would mean that member nations would have to choose among substantial interventions to maintain the band, dropping out of the band, or adjustment within the band. According to EC officials, if an EC currency were to come under strong pressure and if the necessary credits and support were not forthcoming, parity adjustments within the band would be more likely than a withdrawal from the float. This solution probably would be more acceptable to Sweden and Norway, whose currencies have shown the strongest performance in the joint float, than to Bonn, which probably would prefer to float the mark independently than resort to still another revaluation. Despite the rapid appreciation of the mark in recent weeks, it remains at the bottom of the European band and thereby retains more room for further appreciation than its partners in the joint float.

It is not clear who has provided the major impetus to the wave of dollar selling. As in the past crises, US banks, multinational corporations, and Middle East interests all have been reported to be the largest sellers.

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US-Soviet Equipment Contracts Since the Summit

Since the US-Soviet summit meeting in May 1972, agreements and contracts between US firms and Soviet organizations have proliferated. In addition to last summer's well-publicized grain and soybean contracts valued at $1.2 billion and the Occidental fertilizer deal, US firms have signed more than 50 contracts for machinery and equipment valued at about $475 million. Other agreements involve the sale and licensing of technology and the barter of commodities. The machinery and equipment contracts are broken down roughly as follows:

- $200 million for motor vehicle manufacturing, including $100 million for the Kama River Truck Plant
- $135 million for the oil and gas industry, featuring tractors and pumps
- $50 million for metalworking and metallurgical equipment
- $40 million for grain conveyors
- $30 million for tableware-making plants
- $20 million for miscellaneous equipment

[redacted] 25X1

The USSR has continued to purchase Western equipment in spite of the heavy foreign exchange outlays necessitated by the large-scale imports of Western grain. The USSR contracted for a record $2 billion in Western machinery and equipment in 1972. US firms have obtained 20%-25% of Soviet equipment orders placed in the West in 1971-72, compared with about 5% earlier.

Most of the equipment orders will be financed by Eximbank or private US banks. More than $200 million in medium-term and long-term credits have been arranged thus far. These include the Kama River contracts, those for the tableware plants, and some of the oil and gas equipment contracts. [redacted] 25X1

Brazil Forges Direct Links to Oil-Producing Countries

Brazil is aggressively seeking long-term supplies through direct deals with producing states. Its petroleum consumption has increased by nearly 20% since January 1970, while domestic production has stagnated. Brazil's output now covers only about 25% of the consumption of 650,000 barrels per day (b/d), compared with 40% in 1970.

Petrobras, the Brazilian state oil agency, is acquiring foreign oil concessions and purchasing oil directly from several producing states.

- Petrobras began oil exploration outside Brazil in March 1972, acquiring an interest in a Colombian concession held by the Tenneco-Southdown group. Later, Petrobras won concessions in Iraq, joint exploration contracts with Egypt and Malagasy Republic, and a second concession in Colombia. Brazil is negotiating for concessions in Nigeria and Algeria and has expressed interest in Angola, Gabon, Ghana, Tanzania, Ecuador, Peru, and Bolivia.

- Brazil was among the first customers for the "hot" oil Iraq began to market from the North Rumaila fields in April 1972. Now that Iraq and the IPC consortium have concluded a settlement on the nationalization issue, Petrobras has contracted for 13,400 b/d from these fields in 1973-75. The agency also has agreed to buy nationalized Libyan Sarir crude oil in amounts rising from 35,000 b/d in 1973 to 80,000 b/d during 1978-82.

- Petrobras recently signed an agreement with Algeria for 25,000 b/d of crude oil in 1973 and 50,000 b/d in 1974, an accord with Peru for 4,000 b/d during the next three years, and a 10-year contract for deliveries of Saudi Arabian participation oil reportedly increasing from 70,000 b/d in 1973 to 150,000 b/d during 1977-82.

The government-to-government contracts so far concluded by Brazil will provide 30% of Brazil's petroleum import needs in 1973. This percentage undoubtedly will grow. (UNCLASSIFIED)

Japan's Planned Orders for Nuclear Power Units

Date of Order	Number of Units	Total Capacity (Megawatts)	Completion Date
1973	13	11,400	1977-79
1974	6	5,900	1980
1975	3	3,000	1980-81
1976	9	9,300	1982
1977	4	5,000	1983
1978	7	9,000	1984
1979	5	9,000	1985
1980	6	9,000	1986

(UNCLASSIFIED)

Japan's Move Toward Nuclear Power

Japan expects that its total energy consumption will more than double during 1973-85 and plans to satisfy about one-fifth of this requirement with nuclear power. Schedules now call for 76 nuclear power reactors to be operating by the mid-1980s. Twenty-three units are already in use or under construction, and contracts for an additional 53 units worth $20 billion to $25 billion are to be let through 1980.

In the past, US firms have been the chief suppliers of nuclear reactors, winning prime contracts for four of the six plants already completed. Prime contracts for the expansion program will increasingly go to Japanese firms. Twelve of the 17 plants now under construction or on order involve Japanese prime contractors which have obtained the necessary technology under license from US companies. The general practice has been for power companies to purchase prototype reactors from US firms and award subsequent contracts to Japanese enterprises such as Toshiba, Hitachi, and Mitsubishi. Toshiba, for example, will construct a 1,100 megawatt boiling water reactor for Tokyo Electric Power Company (TEPCO) that will use the design and technology employed in a plant being built by General Electric for TEPCO.

US firms undoubtedly will share in future contracts. If the current plant construction schedule is maintained, Japanese firms may have a difficult time filling all orders, leaving some prime contracts for US companies. In any case, US firms will obtain some sub-contracts to supply basic nuclear equipment such as primary cooling pumps, safety valves for the reactor, control rod systems, and the reactor core. The Japanese probably can develop the capability to produce these components in a reasonably short time once a decision is made to do so. Japanese firms already are producing large components used in constructing reactors including pressure vessels – some of which are sold to US customers. [redacted] 25X6

Although the Japanese are successfully absorbing US plant technology, they will continue relying on the United States for their rapidly expanding enriched uranium fuel requirements. By 1980 these requirements may equal one-sixth of the world's total. The Japanese are buying natural uranium from the United States, Canada, South Africa, France, and Australia, but enrichment is still done solely in the United States. Concern is already building over the US ability to meet the growing demand for enrichment services, and Japan is considering entering joint ventures with West Europeans, as well as moving ahead with development of the gas centrifuge process of uranium enrichment. [redacted] 25X1